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KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE BACHELOR OF BUSINESS AND INFORMATION TECHNOLOGY
KBA 2307 – INTERNATIONAL PAYMENTS

Date: 13TH December 2024
Time: 11:30AM – 1:30PM

INSTRUCTIONS TO CANDIDATES
ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS
QUESTION ONE (30 MARKS)

KENYA'S 2024 EUROBOND ISSUANCE

a) Kenya has successfully issued a new Eurobond worth $1.5 billion (Sh238 billion) to buy back the inaugural one due on June 24. In a statement, the National Treasury says the new loan divided into three installments has a weight average life of six years and is expected to mature in 2031.The bond is priced at 10.37 per cent, the highest rate an African state has ever offered. Cote D'Ivoire's January issuance and Benin's February bonds, which raised $2.6 billion and $750 million were priced at between 8.5 and 7.5 per cent. The proceeds of the 2023 Eurobonds will fund the offer to buy Kenya's existing $2 billion Eurobonds due in 2024, pending demand in the tender offer whose results are expected February 15," the exchequer says. It says that the combined transactions are a crucial part of the government strategy to smoothen the maturity profile of the 2024 Eurobonds and proactively manage debt liabilities. "This diversified financing approach aims to maintain a relatively low weighted average interest rate in the overall public debt portfolio, ensuring Kenya's debt sustainability over the medium term."It adds that the international capital markets provide essential liquidity for the government, and the successful transaction underscores investor confidence in Kenya. The new debt is coming just a week after Kenya opened the tender offer for bondholders wishing to participate in the buyback for its inaugural Eurobond issued in 2014. The repayment saw Kenyas National Reserves move above the four-month statutory requirement for the first time in five months. "The usable foreign exchange reserves remained adequate at $8.32 billion equivalent to 4.3 months of import cover as of June 20. This meets the CBK's statutory requirement to endeavor to maintain at least 4 months of import cover," said CBK in its weekly brief. This is an increase of $1.31 billion (Sh168 billion) to reach US$8.32 billion (Sh1.07 trillion). In February, Kenya partially retired its note and re-entered the market with a new issuance. This saw the government receives tenders worth US$1.48 billion and accepted valid tenders totaling US$1.44 billion. Kenya had earlier indicated the outstanding amount would be retired through a mix of syndicated, multilateral & domestic financing. The National Treasury in February confirmed that the country had successfully issued the new Eurobond with plans to buy back the inaugural one due on June 24. The Parliamentary Budget Office (PBO) had earlier said that to fully repay the Eurobond, whichever liability management route the government opts for, whether a buyback or paying out from FX reserves, in the absence of a new Eurobond issuance, the government would need new funding from external markets. The options included IMF, World Bank, and syndicated loans via multilateral agencies.

Required:

i) Describe ways in which investors holding the Kenyan Eurobond can mitigate against currency risk (6 Marks)

ii) Describe the effect of the successful issuance of the Eurobond on the Kenya foreign exchange risk that importers face (6 Marks)

iii) The successful Eurobond issuance affected the level of exchange risk faced by Multinational firms operating in Kenya. Discuss any three other risks faced by such firms engaged in multinational operations (6 Marks)

iv) The Kenyan exchequer says that the successful issuance is proactively aimed to manage debt liabilities. One strategy that could be embraced is through fiscal discipline and increasing foreign exchange earnings through export promotion. Describe three strategies a developing country like Kenya can embrace to boost its exports (6 Marks)

v) The Kenyan government has been taking measures to reduce the high level of indebtedness. A great share of the Kenyan foreign debt has been contributed by the 2014 Eurobond issuance. Discuss effects of high levels of debt to a developing country such as Kenya. (6 Marks)

QUESTION TWO (20 MARKS)

a) Discuss four challenges faced by a multinational firm engaged in international trade (8 Marks)

b) Differentiate between a bid trade bond and a performance bond (4 Marks)

c) A bag of cement costs ksh.800 in Kenya. The same bag of cement cost Tsh.16, 000 in Tanzania. If the official exchange rate between the two currencies is ksh.1=Tsh.19.49

Required:

i) Calculate the purchasing power parity (6 Marks**)**

ii) Determine whether or not the Kenyan shilling is overvalued (2 Marks**)**

QUESTION THREE (20 MARKS)

a) Any firm operating internationally has to consider and know to deal with foreign exchange matters. Highlight and explain four ways that volatility in foreign exchange rates can affect a business firm (8 Marks)

b) Explain any two modes of international banking (4 Marks)

c) Differentiate between terms as used in international trade.

i) Forward contracts and futures contracts (2 Marks)

ii) Interest rate swap and debt-equity swap (2 Marks)

iii) Call option and put option (2 Marks)

QUESTION FOUR (20 MARKS)

a) Describe any two participants in a derivative market (4 Marks)

b) Explain your understanding of term globalization. Discuss any three benefits of globalization to a developing country like Kenya (8 Marks)

c) International money market is a large-scale money market that allows many central banks to conduct transactions from different countries. Discuss four features of international money market(8 Marks)

QUESTION FIVE (20 MARKS)

a) Suppose that the one-year dollar interest rate is 5 per cent, and the sterling interest rate is 8 per cent, and the spot rate of the dollar against the pound is \$1.70/£1.Determine the one year forward exchange rate of the pound (6 Marks)

b) Outsourcing from developed countries to developing countries is given as one of the causes of trade imbalance between countries. Discuss any three benefits manufacturing firms obtain from outsourcing their activities in developing countries. (6 Marks)

c) International trade poses a number of risks caused by payment uncertainties. Explain four methods of payments commonly preferred in international transactions that help protect traders (8 Marks)